

Message Text

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AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
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PARIS ALSO FOR USOECD; ALSO FOR USEC; GENEVA FOR USMTN

E.O. 11652:N/A
TAGS: EIND, BE
SUBJ: BELGIUM MOVES A STEP FURTHER TOWARDS STEEL RESTRUCTURING.

REF: 77 BRUSSELS 16501

1. SUMMARY. AFTER REPEATED DELAYS, BELGIAN GOVERNMENT, INDUSTRY AND LABOR (PLUS EC COMMISSIONER DAVIGNON) PARTICIPATED IN A MAJOR CONFERENCE MAY 20 AIMED AT REFORM OF THE COUNTRY'S STEEL INDUSTRY. THE CONFERENCE DEVELOPED GENERAL AGREEMENT ON SEVERAL BASIC ISSUES, BUT FIRM COMMITMENTS REMAIN TO BE NEGOTIATED WITH A MID-JUNE DEADLINE.

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PARTICIPANTS ENDORSED THE CONCEPTS OF (A) MINORITY STATE EQUITY IN THE STEEL FIRMS; (B) ENCOURAGEMENT OF CLOSER TIES WITH NEIGHBORING COUNTRY STEEL MAKERS; (C) STATE-CONTROLLED INVESTMENT IN MODERNIZATION BUT NOT IN NEW CAPACITY; (D) ELIMINATION OF 8500 JOBS, THE BLOW TO BE SOFTENED BY EXPENSIVE, GOVERNMENT-SUBSIDIZED RECONVERSION AND INCOME MAINTENANCE PROGRAMS; (E) FURTHER EXTENSION OF

EXISTING CREDIT LINES TO THE FIRMS.

2. SUCH RESULTS REPRESENT A REASONABLE GOB SUCCESS, PARTICULARLY IN VIEW OF THE SHABA INVASION AND OTHER PROBLEMS WHICH HAD THREATENED TO SCUTTLE THE MEETING. OTHER OBSTACLES REMAIN, HOWEVER, AND THE EVENTUAL SUCCESS OF ANY BELGIAN STEEL PLAN IS FAR FROM ASSURED. END SUMMARY.

3. THE LONG-AWAITED TRIPARTITE CONFERENCE ON BELGIAN STEEL TOOK PLACE LAST SATURDAY, MAY 20. ABOUT 70 REPRESENTATIVES FROM THE GOVERNMENT, THE STEEL FIRMS, LABOR UNIONS AND THE EC COMMISSION (INCLUDING DAVIGNON) LABORED FOR FIFTEEN HOURS AND REACHED A LARGE MEASURE OF AGREEMENT ON HOW THE BELGIAN STEEL INDUSTRY WILL BE REORGANIZED FOR THE FUTURE. MANY DETAILS REMAIN TO BE WORKED OUT IN PRIVATE MEETINGS OVER THE NEXT SEVERAL WEEKS, BUT THE GOVERNMENT IS HOPEFUL THAT A FINAL PLAN WITH FIRM UNDERTAKINGS FROM ALL PARTIES CONCERNED, CAN BE SIGNED BY JUNE 15.

4. THE MAJOR ISSUES ADDRESSED BY THE CONFERENCE WERE AS FOLLOWS:

A. STATE PARTICIPATION. THE GOB, IN THE PERSON OF ECONOMIC AFFAIRS MINISTER CLAES, EXPRESSED ITS READINESS TO TAKE A MINORITY EQUITY POSITION, AS NEEDED, IN ALL BELGIAN STEEL FIRMS. THE CONFERENCE DISCARDED CLAES' ORIGINAL LIMITED OFFICIAL USE

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IDEA OF CAPITALIZING LONG-TERM LOANS OUTSTANDING FROM QUASI-GOVERNMENTAL ENTITIES (BF 35 BILLION); THIS WOULD HAVE GIVEN THE GOB MAJORITY PARTICIPATION IN COCKERILL BY 1982, CREATING THE SPECTER OF "ANOTHER BRITISH STEEL CORPORATION", IN THE WORDS OF ONE PARTICIPANT. THE EFFORT NOW WILL BE TO DEVELOP A NEW FORMULA WHICH SPREADS STATE PARTICIPATION MORE EVENLY AMONG THE COMPANIES. SUCH PARTICIPATION WILL BE CONDITIONED ON SUBSTANTIAL GOVERNMENTAL CONTROL OVER OPERATIONS, INVESTMENTS, AND ACCOUNTING PROCEDURES.

B. SECTOR REALIGNMENT. BELGIAN STEEL WILL BE CONSIDERED AS A NATIONAL (NOT WALLONIA) PROBLEM. THE INDUSTRY WILL BE VIEWED AS GROUPED INTO THREE GEOGRAPHICAL BASINS, I.E. LIEGE (I.E. COCKERILL), CHARLEROI AND THE "CENTER" (I.E. THE SMALLER INDEPENDENT FIRMS. THE MOST SIGNIFICANT INNOVATION IS CREATION OF AN ARBED-CHARLEROI-SIDMAR (GHENT) ASSOCIATION IN WHICH BELGIAN AND LUXEMBOURG STEEL MAKERS (INCLUDING ARBED SUBSIDIARIES IN THE SAAR) WILL COOPERATE INITIALLY ON INVESTMENT AND MARKETING WITH THE POSSIBILITY IN TIME OF ASSUMING EQUITY POSITIONS IN EACH OTHER'S CAPITAL STRUCTURES.

C. INVESTMENT. AN ESTIMATED MINIMUM OF BF 25 BILLION WILL BE NEEDED FOR MODERNIZATION OVER THE NEXT FIVE YEARS. THERE WILL BE NO RPT NO NEW NET INVESTMENT TO EXPAND CAPACITY. THE GOVERNMENT HAS SUGGESTED THAT INVESTMENT COME PRIMARILY FROM THE PRIVATE COMPANIES, BUT FINANCING DECISIONS WILL PROBABLY BE LEFT TO A NEWLY-ESTABLISHED NATIONAL PLANNING COMMITTEE, COMPOSED OF GOVERNMENT, LABOR AND BUSINESS, BUT WITH THE GOB RETAINING VETO RIGHTS.

D. RECONVERSION. THE GOVERNMENT HAS PROMISED TO CONTRIBUTE

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BF 3 MILLION PER HEAD TO SUPPORT RETRAINING OF REDUNDANT STEEL WORKERS INTO NEW JOBS. THE TOTAL PUBLIC COST OF THIS PROGRAM OVER THE NEXT COUPLE OF YEARS WILL BE OVER BF 7 BILLION. BELGIAN HOLDING COMPANIES WITH LARGE STEEL INTERESTS HAVE PROMISED TO CONTRIBUTE AN ADDITIONAL BF 10 BILLION TO SUPPORT VIABLE NEW INDUSTRIAL PROJECTS.

E. SOCIAL MEASURES. RESTRUCTURING IN THE STEEL INDUSTRY WILL COST UP TO 8,500 JOBS IN THE NEXT SEVERAL YEARS.

THE GOVERNMENT PLEDGED TO UNDERWRITE ACCELERATED RETIREMENT FOR SOME, SUBSIDIES FOR WORKERS WHO LEAVE VOLUNTARILY AND GENEROUS UNEMPLOYMENT COMPENSATION TO GUARANTEE INCOME MAINTENANCE. THE UNIONS ALSO DEMANDED REDUCTION OF THE LIMITED OFFICIAL USE

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WORK WEEK (FIRST TO 38 HOURS AND EVENTUALLY, TO 36 AT THE SAME SALARY) TO SPREAD THE AVAILABLE WORK MORE WIDELY. THE GOVERNMENT ARGUED THAT ANY SUCH REDUCTION WOULD HAVE TO BE BALANCED BY PRODUCTIVITY INCREASES - BUT THE UNIONS' DEMAND IS A MAJOR ONE AND THE GOVERNMENT AND COMPANIES WILL PROBABLY HAVE TO ACCEPT IT AT LEAST IN PART TO OBTAIN LABOR'S AGREEMENT TO THE OVERALL PLAN.

F. DEBT RELIEF. ALL PARTIES AGREED THAT GOB NEGOTIATIONS WITH PRIVATE BANKS WOULD CONTINUE WITH AN AIM OF EXTENDING THEIR CREDIT LINES BEYOND THE CURRENT JUNE 30 DEADLINE AND REDUCING INTEREST RATES ON OUTSTANDING LOANS. THE STEEL COMPANIES' INTEREST PAYMENTS ALONE NOW COST BF 7 BILLION ANNUALLY, OR AN ESTIMATED 6.5 OF TURNOVER. (AN AMERICAN BANKER WHOSE BANK HOLDS SUBSTANTIAL SHORT-TERM STEEL DEBT HAS PRIVATELY CONFIRMED TO US THAT NEGOTIATIONS ARE MAKING PROGRESS AND THAT A REFINANCING AGREEMENT SHOULD BE IN PLACE BY MID-JUNE).

5. COMMENT. THIS CONFERENCE WAS ORIGINALLY SCHEDULED TO TAKE PLACE LAST MARCH, BUT HAS BEEN REPEATEDLY POSTPONED DUE TO DEEP DIFFERENCES BETWEEN THE PARTICIPANTS. UNFORTUNATELY, ITS FINAL CONVENING LAST WEEKEND CAME UNDER SINGULARLY UNAUSPICIOUS CIRCUMSTANCES - EVENTS IN SHABA DIVERTED TOP-LEVEL GOB ATTENTION, PARALLEL AND DIFFICULT "ANTI-CRISIS" NEGOTIATIONS ON THE BUDGET IN RECENT DAYS HAD SOURED THE ATMOSPHERE SOMEWHAT AND LABOR CAME SHARPLY DIVIDED INTERNALLY ON SOME ISSUES (ONE FACTION'S MILITANCY LEADING TO A BRIEF BUT VIOLENT TUSSLE BETWEEN CHARLEROI WORKERS AND POLICE OUTSIDE THE CONFERENCE HALL). THAT THE CONFERENCE WAS NONETHELESS ABLE TO PRODUCE GENERAL AGREEMENT ON A NUMBER OF BASIC ISSUES IS THUS BEING VIEWED AS A REASONABLY POSITIVE OUTCOME FOR THE GOVERNMENT, A LIMITED OFFICIAL USE

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PERSONAL ACCOMPLISHMENT FOR ECONOMIC AFFAIRS MINISTER CLAES AND AN IMPORTANT STEP IN DAVIGNON'S OVERALL ASPIRATIONS FOR STEEL RESTRUCTURING THROUGHOUT THE COMMUNITY.

6. THE CONFERENCE ALSO POINTED UP SOME POTENTIAL PROBLEM AREAS, HOWEVER. LABOR CAMPAIGNED FOR MORE ADVANTAGES, BUSINESS SHOWED RELUCTANCE TO POUR GOOD MONEY AFTER BAD AND SOME FLEMISH POLITICIANS CALLED FOR THE PLAN TO BE REGIONALIZED (I.E. SO THAT WALLONIA WOULD PAY MOST OF THE BILL). THESE AND OTHER BONES OF CONTENTION WERE SKILLFULLY BURIED DURING THE CONFERENCE BUT REMAIN NONETHELESS AND WILL CONTINUE TO THREATEN THE EVENTUAL SUCCESS OF ANY BELGIAN STEEL PLAN. CHAMBERS

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